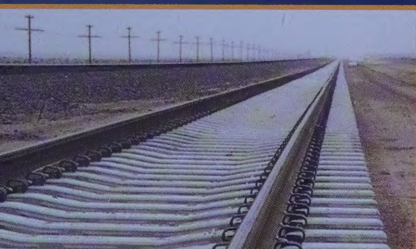
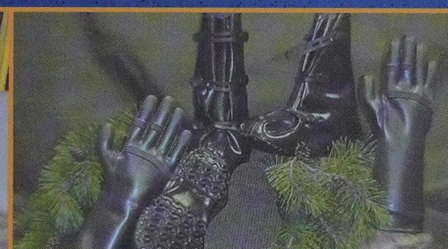
AirBoss of America Corp.





Annual Report

2001

AIRBOSS OF AMERICA CORP. *develops, manufactures and sells high quality, proprietary rubber-based products offering enhanced performance and productivity. The Company is focused on the manufacturing of quality rubber compounds as well as specialty rubber and plastic moulded products.*

AirBoss is one of North America's largest custom rubber mixers with a capacity to supply over 200 million pounds of rubber annually to a diverse group of rubber products manufacturers.

AirBoss engineers and moulds rubber and plastic products for the transportation, military, and industrial markets as well as for its own proprietary designs of military protective wear, commercial footwear and tires.

2001 FINANCIAL HIGHLIGHTS

(millions, except shares and per share)	2001	2000
Value of Goods Produced and Sold	$ 184.1	$ 159.4
Net Sales	169.2	138.0
Gross Margin	29.9	28.4
Earnings Before Interest, Taxes & Amortization (EBITDA)	13.6	13.5
Net Income Before Amortization of Goodwill	3.9	3.5
Net Income	3.2	2.7
Shareholders' Equity	$ 59.7	$ 56.5
Number of Shares Outstanding	22,499,423	22,499,423
Per Common Share		
Net Income Per Share Before Amortization of Goodwill		
– Basic	0.18	0.15
– Diluted	0.17	0.15
Net Income Per Share		
– Basic	0.14	0.12
– Diluted	0.14	0.12
EBITDA Per Share (weighted)	0.61	0.59
Cash Flow Per Share (weighted)	0.48	0.40
Return on Equity	6%	5%

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LETTER TO SHAREHOLDERS

Sales increased by 22% in 2001 to $169 million despite a difficult year in many market sectors served by our business. Major steps forward were taken by our Railway Products and Acton Industrial Products divisions. Progress was made in the expansion of our military protective-wear product lines which should benefit 2002 and future years. Rubber Compounding held previous years' volumes despite contraction in the industry, and AirBoss' specialty off-road tire manufacturing began to demonstrate the manufacturing efficiencies contemplated by the move in 2000. Increased competition in certain areas combined with rising raw material and delivery costs negatively impacted margins. Declines in manufacturing efficiencies in Acton footwear and the recent outcome of the ongoing patent infringement litigation were major disappointments.

2001 marked the first year in recent memory that overall rubber consumption in North America is believed to have shrunk. Reductions in tire production were the primary cause of this decrease.

AIRBOSS RUBBER COMPOUNDING

maintained previous years' annual processing volumes in pounds despite significant declines in mixing for O.E. tire manufacturers. Volume for this customer group declined by 10% for the year, most of which occurred in the fourth quarter of the year. With the decline in tire production in North America we do not anticipate significant volume from this sector in the next year. The division has replaced this lost volume with increased sales to tire retreaders, primarily for off-road tires. Individual customer volumes were similarly down in the industrial products sector and volumes were again maintained by adding customers. This diversification of the customer base should be beneficial in the future when industrial product demand recovers from its current weakness.

Compound development capabilities have been further strengthened with the addition of experienced chemists and the completion of state-of-the-art laboratory facilities. New compounds representing significant additional volumes for several different customers are being developed and tested using this new equipment which should result in sales increases late in the first quarter of 2002.

Raw material prices, which had increased significantly in the first half of 2001, began declining at the end of the year due to reduced demand and weakening oil prices. Price increases were not fully passed along to customers as pricing became an important means of successfully increasing market share.

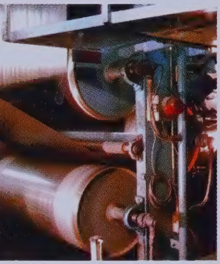
AIRBOSS RAILWAY PRODUCTS

experienced a break-through sales year with dollar sales volumes increasing by 140%. All of our track fastening products showed sales increases. The introduction of metal fastening clips during the year proved so successful that manufacturing capacity will be increased for 2002. Tie protection pads sold in the year, which are the subject of an ongoing legal dispute with a competitor, have been replaced by new products utilizing different technology.

Orders for these new pads have already been received for 2002. Further product design changes aimed at reducing installation times are under development and testing. The railway sector has remained strong due to the commitment by the major railroads to maintain and increase rail capacity. Part of this strength is due to continued high shipments of coal for energy generation.

AIRBOSS-ACTON

AirBoss-Acton's strong sales increases in the industrial, military and footwear product lines were offset by decreases in manufacturing efficiency in the footwear division. 2002 will see the streamlining of the industrial footwear product line, outsourcing of certain consumer lines and changes in manufacturing methodologies. The Company is positioning its product lines manufactured in Canada to be exclusively in those areas less likely to be affected by lower-priced mass-produced imports. This would include firefighter and military protective footwear and niche markets such as mining boots where quality, durability and performance are critical.



The industrial products division at AirBoss-Acton had a strong year and expansion of these product lines through the addition of capacity is planned for 2002.

FINANCIAL

The financial position of the Company was strengthened during the year as a result of a 19% increase in cash flows and the negotiation of favorable long-term debt facilities. The working capital position at the end of the year is very strong and puts us in an excellent position to continue the current rate of growth.

OUTLOOK

All of our divisions are forecasting increases in volumes and profitability provided that key industrial segments in North America stabilize or improve. The greatest potential for increase exists in military products, metal railway clips and custom rubber mixing. Rubber mixing must capitalize on investments in compound development and sales and marketing efforts in the U.S. to increase volumes over what was experienced in the last quarter of 2001. Based upon the volume of new business being quoted and developed, the potential for success is very encouraging. While our direct exposure to the automotive industry is not large, changes in this industry may affect raw material prices and increase competition in other sectors where we have a prominent position. Our exposure to the O.E. tire market has been reduced to a point where further deterioration in this industry will not have a material impact. At the same time we are in a position to capitalize on any rebound as soon as it happens.

We are looking for increases in profitability through the elimination of start up inefficiencies in moulding and problems related to increased footwear production. With the exception of the footwear manufacturing, we are a capital intensive company and increases in volume will significantly improve margins and operating results.

We have made progress in increasing market share in all major segments of our business in 2001 and we expect this trend to continue in 2002.

The Board of Directors, along with the employees of AirBoss, would like to take this opportunity to thank Bill Sword who was involved in the start up and managed the day-to-day operations of our Rubber Compounding business in Kitchener prior to his retirement in October of last year. During his tenure, Bill made a tremendous contribution and this business grew to become one of the largest in North America.

A strong management team was assembled and from this group Bill Sword's successor has been appointed. We are very pleased that Ben Stevens, who has also been with the Company since inception and has over 30 years of industry experience, has assumed this role and we are confident that our growth in this area will continue. We wish Bill a healthy, happy and long retirement.

We would like to express our appreciation to our employees for their dedication, and to our directors for their participation and guidance. The continued support from the shareholders is greatly appreciated and we are confident they will be rewarded.

P.G. Schoch, Chairman   **R.L. Hagerman**, President

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

AIRBOSS FORWARD-LOOKING STATEMENT DISCLAIMER

This report contains forward-looking statements which reflect management's best judgment based on factors currently known but involve significant risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including but not limited to risks more fully described in the "Risk Factors" section of the Company's Annual Report, and other risks detailed in filings with the Ontario Securities Commission. Forward-looking information provided pursuant to the safe harbor established by recent securities legislation should be evaluated in the context of these factors. These forward-looking statements are made as of the date of this annual report and management assumes no obligation to update or revise these statements to reflect new events or circumstances.

SALES

2001 compared to 2000 – Net sales for the year ended December 31, 2001 increased by 22% from $138.0 million to $169.2 million. The Railway Products Division accounted for 51% of this increase. Sales of new products such as metal rail clips as well the expansion of sales efforts into secondary markets were the primary source of higher sales.

Higher volumes with major industrial customers and the expansion into the U.S. with firefighter boots by AirBoss-Acton accounted for 29% of the overall increase in sales.

Sales dollars also increased at our rubber compounding division. The volume of pounds mixed remained flat but there was a shift away from "customer supplied material" mixing for O.E. tire companies to mixing for off-road tire retreaders where AirBoss supplies the material.

2000 compared to 1999 – Several major O.E. tire customers supplied their own materials for AirBoss to process. The Company reports net sales as being net of these materials received. The gross value of goods produced and sold, which includes the value of the materials received, amounted to $159.4 million, an 8% increase over the previous year's sales of $147.6 million. Net sales for the year ended December 31, 2000 increased by 15% primarily due to the inclusion of Acton International Inc. ("Acton") for the full year. Sales increases of 4.7% in Rubber Compounding and 35% in AirBoss Railway Products were partially offset by decreases in AirBoss Tires and AirBoss Polymer Products.

GROSS MARGINS

2001 compared to 2000 – Gross margins increased by $1.5 million for the year but decreased as a percentage of sales from 20.6% in 2000 to 17.7% in 2001. The decrease is attributed to a change in mix of sales between "customer supplied materials", O.E. tire rubber compounds and those where AirBoss supplies all materials. There was also a decline in production efficiencies in Acton, an increase in raw material costs and margin reduction due to increasingly competitive markets.

2000 compared to 1999 – Gross margins declined to 20.6% from 23.3% in 1999 due to increases in raw material costs which saw the Rubber Compounding Division's margins decrease by 2.3% and Acton's margins by 2.1%. Margins were also affected by the reduction in sales to O.E. tire companies who supply their own materials. Further margin losses were experienced in AirBoss Polymer Products which was reorganized with injection moulding operations and moved to Kitchener, Ontario.

EXPENSES

2001 compared to 2000 – Administration expenses increased by $1.4 million. Most of these increases were incurred by the Railway Products division and AirBoss-Acton where expenses grew by $768,000 and $446,000, respectively, due to their increased volumes. Administration expense as a percentage of sales declined slightly from 6.1% to 5.8%.

Sales, marketing and distribution expenses increased by $2.0 million in the year driven by AirBoss-Acton ($1.0 million), AirBoss Rubber Compounding ($0.5 million), and AirBoss Railway Products ($0.4 million), respectively. The increases

relate directly to the increased sales volumes, shipping costs and sales support to develop new sales opportunities particularly in the U.S. Overall, selling, marketing and distribution costs have remained consistent as a percentage of sales.

2000 compared to 1999 – General and administrative costs increased to approximately 6.6% of net sales. The increase in dollar costs is due primarily to the full year inclusion of Acton. Sales and marketing expenses increased from 5.2% of sales in 1999 to 6.1% in 2000. Sales efforts were increased in both Rubber Compounding (ITRM) and in Acton as personnel were added for programs designed to better address the U.S. market.

RE-ORGANIZATION COSTS

The Company re-organized the rubber part manufacturing operations in Michigan in 2000 to reduce overhead and product costs. The cost of this re-organization amounted to approximately $1.6 million plus an additional write-off for excess tire rim inventory of $350,000 which was charged to cost of sales during fiscal 2000.

LIQUIDITY AND CAPITAL RESOURCES

2001 compared to 2000 – Working capital increased by $13.5 million to $18.7 million. Current assets are now 158% of current liabilities. During the year the Company arranged term loan financing of $30 million. Proceeds from this loan provided an additional $9 million of working capital to support the 22% increase in sales and the expansion of the Company's railway products and military products markets. The Company had an unused portion of its $27.0 million operating line of credit of approximately $14.8 million at December 31, 2001.

Cash flow from operations before changes in non-cash operating working capital increased to $10.8 million from $9.0 million in the previous year while capital purchases decreased by $1.3 million to $4.9 million. Cash flow includes the deferral of $1.7 million in income taxes related to patent infringement litigation (see "Lawsuits").

Included in capital expenditures for 2001 is approximately $1.1 million of expenditures on new equipment to produce nuclear, biological and chemical ("N.B.C.") protective military gloves under a government contract. This contract will not start generating revenues until the beginning of the second quarter in 2002.

2000 compared to 1999 – Working capital decreased by $3.6 million to $5.2 million. During the year, long-term debt was reduced by $5.6 million and capital expenditures were $6.2 million. Cash flow from operations amounted to $9.0 million leaving $2.8 million to be financed through existing working capital.

QUARTERLY INFORMATION

(thousands except shares and per share)

Quarter Ended	Sales	Net Income (Loss) Before Goodwill Amortization	Net Income (Loss)	Net Earnings Per Share Before Goodwill Amortization		Net Earnings Per Share	
				Basic	Diluted	Basic	Diluted
2001							
December 31	$ 38,837	$ 446	$ 366	$ 0.02	$ 0.02	$ 0.02	$ 0.02
September 30	45,554	1,448	1,268	0.06	0.06	0.06	0.06
June 30	47,304	1,659	1,379	0.07	0.07	0.06	0.06
March 31	37,506	385	205	0.02	0.02	0.01	0.01
2000							
December 31	35,767	(507)	(687)	(0.02)	(0.02)	(0.03)	(0.03)
September 30	36,526	529	349	0.02	0.02	0.02	0.02
June 30	31,759	1,751	1,575	0.08	0.08	0.07	0.07
March 31	33,986	1,693	1,509	0.07	0.07	0.07	0.07

With the exception of the ongoing patent infringement legal proceedings as described under "Lawsuits" on page 7 and Note 16 (i), there have been no events which have materially impacted the financial condition, cash flows or results of operations during the fourth quarter of 2001.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

The Company adopted recent accounting pronouncements described in Note 1(p) of the notes to the consolidated financial statements.

RISK FACTORS

COMPETITION

The Company competes directly against major North American custom rubber compounders and footwear and rubber parts manufacturers in most of its identified and potential market segments. Some of these companies have strong established competitive positions in these markets, as in the case of the rubber compounding industry leader, and much greater resources, both financially and in terms of personnel, than the Company and have long-standing relationships with the Company's prospective customers and well-established marketing and distribution networks.

Furthermore, since there is a certain commodity-like element to certain segments of the Company's rubber mixing business, the customers of this business are price sensitive and the Company competes against manufacturers who are able to provide similar services at competitive prices.

The Company manufactures commercial footwear, which competes against other established brand names. While the Company's rubber footwear generally offers greater protection and wear features, competitive products, usually made of plastic and imported, enjoy lower labour and material costs. They are, therefore, retailed at lower prices and may, accordingly, appeal to price sensitive purchasers.

IMPACT OF ECONOMIC CYCLE

The demand for the products produced by the Company can vary in accordance with general economic cycles and the economic conditions of the industry sectors that are served by the Company. In addition, such industry sectors are cyclical in nature. The Company is particularly sensitive to trends in the tire and automotive, construction, mining, retail and rail transportation industries because these industries are significant markets for the Company's business and are highly cyclical.

The Company's railway fastening business, for example, is influenced by the economic conditions of the railroad industry. The railroad industry, in turn, is susceptible to changes in the economic conditions of the industries and geographic areas that produce and consume the freight it transports. Many of the goods and commodities carried by the railway companies experience cyclical demand. If there is an economic slowdown or recession in North America or the other markets in which the Company intends to expand, the volume of rail shipments carried by the Company is likely to be reduced, thereby reducing the need for new track construction and maintenance and, in turn, the demand for the Company's railway fastening products.

RAW MATERIALS AND INVENTORY

The Company depends on certain outside sources for raw materials used in the production of its products, the price and availability of which are subject to market conditions. As a result, any unforeseen shortage of such raw materials could delay delivery, increase costs and decrease profitability. The Company does not have long-term supply contracts with its vendors and purchases the raw materials on a purchase order basis. Although the Company attempts to mitigate certain of the risk of increased prices for raw materials by entering into futures contracts, increased prices for raw materials for which the Company does not have alternative sources and which have not been hedged through futures contracts could have a material adverse effect on the Company's business, results of operations and financial condition. Although the Company attempts to pass price changes in raw materials on to its customers, the Company may not be able to adjust its prices, especially in the short-term, to recover the costs of increases in raw material prices.

WEATHER

The Company manufactures rubber compounds used extensively in snowmobile tread manufacture. The annual sales of these compounds depend upon snowmobile sales, which in turn are affected by weather conditions. The Company also builds its commercial footwear inventory, consisting primarily of boots, during the first half of the year for delivery to retailers for their fall and winter sales during the last half of the year. The volume of these sales is largely dependent on weather conditions.

PRODUCT LIABILITY AND WARRANTY CLAIMS

As a manufacturer of rubber-based products, the Company faces a risk of product liability and warranty claims. Although the Company carries commercial general liability insurance in an amount considered reasonable by industry standards, any claim which is successful and is not covered by insurance or which exceeds the policy limit could have an adverse affect on the Company. No product liability claims have been made against the Company. Warranty claims have not been material and are within industry standard expectations.

DEPENDENCE ON KEY CUSTOMERS AND CONTACTS

From time to time, a significant portion of the Company's sales for a given period may be represented by a small number of customers. Five rubber compound customers represented approximately 42% and 45% of the Company's sales for the years ended December 31, 2001 and 2000, respectively. The loss of any such customers or the delay or cancellation of any orders under certain high-volume contracts could have a significant impact on the Company. During 2001, the Company experienced a decline in rubber compound volumes sold to automotive and O.E. tire customers, with further decline expected in 2002. Intensified sales efforts in other sectors and in expanded territories continue to mitigate the sector-specific declines.

CAPACITY AND EQUIPMENT

The rubber compounding business completed an expansion in July 1999, which effectively doubled its annual capacity to approximately 200 million pounds. Approximately 123 million pounds was mixed in 2001. During the last two years, the K-7 Master Batch mixer, the core mixer in the Company, was overhauled, one of the Company's final mixers was replaced with a new design CoFlow 4® mixer and the Company has made improvements to powder and oil weighing systems, strip piling system and to its laboratory equipment. The Company's continuing investments in equipment technology ensures a reliable supply capability for 2002 and beyond.

The Company's capacity to manufacture industrial protective boots was increased by the purchase of certain tooling from a competitor in receivership, and by the rationalization of products to increase production efficiencies. During the year, the Company purchased additional injection equipment to establish its presence in new military and industrial markets, protective gloves in particular. It also entered into a joint-venture with an ISO-rated moulder to obtain access to additional moulding capacity and access to new industrial opportunities.

CURRENCY EXPOSURE

The Company has revenues and expenses denominated in both Canadian and U.S. dollars. In addition, the price to the Company of certain raw materials and other expense items and the competitiveness of prices charged by the Company for its products will be indirectly affected by currency fluctuations. Changes in the value of the Canadian dollar relative to the U.S. dollar could have a material adverse effect on the Company's results of operations. The Company reviews its currency exposure positions from time to time and hedges its exchange risk when it determines it to be advisable. However, there is no assurance that such hedging strategy will be successful or cost effective, and the profitability of the Company's business could be adversely affected.

ENVIRONMENTAL

As the Company handles various chemicals and oils in its manufacturing process, the nature of the Company's business may expose it to risks of causing or being deemed to have caused environmental or other damages, such as the potential for harmful substances escaping into the environment and causing damage or injuries. The Company devotes resources to ensure that its operations are conducted in a manner that minimizes such risks. It also maintains insurance coverage considered reasonable by management. To date, no governmental authority has required the Company to pay any material fines or remediation expenses in connection with any alleged violation of environmental regulation. However, there can be no assurance that future environmental damage will not occur or that environmental damage due to prior or present practices will not result in future liabilities.

The Company is subject to environmental regulation by federal, provincial, state and local authorities. While management believes that the Company is in substantial compliance with all material government requirements relating to environmental controls on its operation, changes in such government laws and regulations are ongoing and may make environmental compliance increasingly expensive. Management is not able to predict future costs which may be incurred to meet environment obligations.

LAWSUITS

Pursuant to a summary judgment issued by the United States District Court for the Western District of Missouri, damages of approximately $3.2 million U.S. have been awarded against AirBoss and its railway products subsidiary for patent infringement. In addition, an injunction has been granted preventing AirBoss from manufacturing a three-part railway assembly. This decision is a reversal of an earlier decision dismissing the matter in favour of AirBoss. During the most recent hearing, AirBoss was prevented from presenting its evidence concerning the validity of the patent in question and other matters germane to the case. Prior to producing this product, several independent legal opinions were obtained that the AirBoss product was not infringing on any patents.

AirBoss has appealed what it, and its counsel, feel is an incorrect judgment. Based upon legal opinions, the Company has not recognized the award in its results [Note 16(i)]. A bond was posted for the amount of the damages pending the outcome of the appeal. This product represents approximately 6.6% of sales. In the interim, prior to the appeal being heard, AirBoss expects to sell increased quantities of other rail fastening products. There is no assurance, however, that AirBoss will ultimately be successful in its appeal or that the appeal will be decided on a timely basis and AirBoss could be materially affected by an adverse outcome.

OUTLOOK

With the current uncertainties in the O.E. tire and automotive industries which negatively impact our rubber compounding business, the Company expects 2002 profitability in this division may be similar to 2001 with a significant potential upside should conditions improve and our volume increase. The rubber compounding facility currently is operating at approximately 60% of capacity; so, any increases in volume will significantly impact earnings and reduce debt.

The Company is anticipating an increase in its military protective wear business with the introduction of its new N.B.C. glove and the recent approval by the U.S. navy of its N.B.C. boots. Manufacturing efficiencies should improve in the footwear division as a result of increased sales in the U.S. of core products and the elimination of several low volume products.

Demand for our railway products remains strong going into the beginning of 2002 and this should result in another strong year for this division.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of AirBoss of America Corp. and all the information in the annual report are the responsibility of management, and have been approved by the Board of Directors.

The financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles. When alternate accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented in this annual report and has ensured that it is consistent with that presented in the financial statements.

AirBoss of America Corp. maintains systems of internal accounting and administrative controls consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and a majority of its members are outside directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers the engagement or re-appointment of the external auditors for review by the Board and approval by the shareholders.

KPMG LLP, the Company's external auditors, who are appointed by the shareholders, audited the consolidated financial statements as of and for the year ended December 31, 2001 in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Another firm of Chartered Accountants audited the consolidated financial statements as of and for the year ended December 31, 2000. KPMG LLP has full and free access to the Audit Committee.

R. Hager

R.L. Hagerman
President

AUDITED FINANCIAL STATEMENTS

AUDITORS' REPORT TO THE SHAREHOLDERS OF AIRBOSS OF AMERICA CORP.

We have audited the consolidated balance sheet of AirBoss of America Corp. as at December 31, 2001 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements of the Company as of and for the year ended December 31, 2000 were reported on by another firm of Chartered Accountants who issued an unqualified auditors' report dated February 23, 2001.

KPMG LLP

Chartered Accountants
Toronto, Canada
February 22, 2002

CONSOLIDATED BALANCE SHEET

(THOUSANDS)	As At December 31 2001	2000
ASSETS		
Current assets:		
Accounts receivable	$ 25,500	$ 22,330
Inventories (Note 3)	23,349	22,097
Income taxes recoverable	758	318
Prepaid expenses	1,488	776
	51,095	45,521
Capital assets (Note 4)	52,859	51,706
Goodwill (Note 5)	25,442	26,162
Other assets (Note 6)	1,507	1,021
	$ 130,903	$ 124,410
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Demand loan (Note 7)	$ 11,681	$ 21,466
Accounts payable and accrued liabilities	16,614	13,066
Current portion of term loan and other debt (Notes 7 and 8)	4,080	5,729
	32,375	40,261
Term loan (Note 7)	26,500	13,821
Other debt (Note 8)	2,495	6,576
Accrued post retirement benefit liability (Note 13)	408	210
Future income taxes (Note 11)	9,394	7,029
Shareholders' equity:		
Share capital (Note 9)	38,362	38,362
Contributed surplus (Note 9)	143	143
Retained earnings	21,226	18,008
	59,731	56,513
	$ 130,903	$ 124,410

Commitments and contingencies (Notes 12 and 16)

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

On behalf of the Board

Director

Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

(THOUSANDS EXCEPT PER SHARE AMOUNTS)		Year ended December 31 2001	2000
SALES		$ 169,201	$ 138,038
Cost of sales		139,303	109,601
Gross margin		29,898	28,437
EXPENSES:			
General and administrative		9,763	8,392
Selling, marketing and distribution		10,407	8,381
Product research		1,316	1,205
Re-organization costs (Note 15)		–	1,566
Total operating expenses		21,486	19,544
Income from operations		8,412	8,893
Interest expense	– Demand loans	(1,279)	(1,400)
	– Long-term debt	(2,046)	(2,353)
Other income		935	(48)
Income before income taxes and amortization of goodwill		6,022	5,092
Provision for income taxes (Note 11)		2,084	1,626
Net income before amortization of goodwill		3,938	3,466
Amortization of goodwill		720	720
Net income		3,218	2,746
Retained earnings, beginning of year		18,008	15,262
Retained earnings, end of year		$ 21,226	$ 18,008
Net income per share before goodwill amortization			
	– Basic	$ 0.18	$ 0.15
	– Diluted	0.17	0.15
Net income per share	– Basic	$ 0.14	$ 0.12
	– Diluted	0.14	0.12

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(THOUSANDS)	Year ended December 31	
	2001	2000
CASH PROVIDED BY (USED IN)		
Operating Activities:		
Net income	**$ 3,218**	$ 2,746
Items not affecting cash:		
Amortization	**5,009**	5,334
Future income taxes	**2,365**	779
Post-retirement benefits expense	**198**	186
	10,790	9,045
Changes in non-cash operating working capital balances		
Accounts receivable	**(3,170)**	(3,761)
Inventories	**(1,252)**	(3,006)
Income taxes recoverable	**(440)**	776
Prepaid expenses	**(712)**	142
Accounts payable and accrued liabilities	**3,548**	3,321
	(2,026)	(2,528)
	8,764	6,517
Investing Activities:		
Purchase of capital assets	**(4,881)**	(6,213)
Purchase of other assets	**(1,047)**	(457)
Acquisition of Acton International Inc.	**–**	(221)
	(5,928)	(6,891)
Financing Activities:		
Net increase (decrease) in demand loan	**(9,785)**	6,051
Repayment of term debt	**(19,257)**	(2,437)
Issuance of term debt	**32,500**	–
Payment of other debt	**(6,294)**	(3,212)
Issuance of share capital	**–**	336
Redemption of share capital	**–**	(364)
	(2,836)	374
Increase (decrease) in cash for the year	**–**	–
Cash and short-term deposits at the beginning of the year	**–**	–
Cash and short-term deposits at the end of the year	**$ –**	$ –
Interest paid during the year	**$ 3,200**	$ 3,800
Income taxes remitted during the year	**174**	920

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF PRESENTATION

These consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and a proportionate share of joint ventures. Intercompany balances and transactions have been eliminated upon consolidation.

b) CAPITAL ASSETS

Capital assets are recorded at cost and are depreciated to the estimated salvage values on the following basis over their expected useful lives.
Buildings – straight-line basis over 25 years
Equipment – straight-line basis over five years to fifteen years or on a unit of production basis

c) GOODWILL

Goodwill represents the excess of the purchase price over the fair value of assets acquired and is being amortized on a straight-line basis over twenty-five to forty years. Goodwill is reviewed annually for impairment. Factors, which are reviewed for impairment, include sales and net income. Any impairment will be written off in the year incurred.

Based on its review in 2001, the Company does not believe that an impairment of the carrying value of goodwill has occurred.

d) INVENTORIES

Inventories are recorded at the lower of cost and market. Cost is determined on a first-in, first-out basis. Market is defined as replacement cost for raw materials and net realizable value for work-in-progress and finished goods.

e) OTHER ASSETS

i) ***Patents and license rights*** – The Company has capitalized the costs incurred to acquire the patents and license rights. Patent costs will be amortized over the life of the patent and license rights amortized over forty years. These costs will be written down in the event of impairment.

ii) ***Product development*** – The Company has capitalized the costs incurred in developing the products that it plans to bring into commercial production. Product development costs are amortized on a unit-of-production basis. These costs will be written down in the event of impairment. All other product development and research costs are expensed as incurred.

iii) ***Deferred financing*** – Deferred financing is being amortized over the term of the loans on a straight-line basis.

f) REVENUE RECOGNITION

The Company generally recognizes revenue when goods are delivered to customers.

g) EARNINGS PER SHARE

Effective January 1, 2001, the Company adopted the new accounting recommendations of The Canadian Institute of Chartered Accountants (the "CICA"), on "Earnings per Share" ("EPS") on a retroactive basis. The adoption of this standard did not have an effect on the basic or diluted earnings per share as previously stated for 2000.

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting period.

h) CASH FLOW PER SHARE

Cash flow per share is based upon operating activities before change in working capital divided by the weighted average shares outstanding during the period.

i) STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

The Company has a stock option plan for officers and directors. All stock options issued under this plan have an exercise price equal to the fair market value of the underlying common shares on the date of grant. As a result, no compensation expenses are recorded on the grant of options under this plan. The stock option plan is described in Note 9(c).

j) FOREIGN CURRENCY TRANSLATION

The accounts of the Company's wholly owned subsidiaries have been translated using the temporal method, which translates monetary items at the rate of exchange in effect at the balance sheet date and non-monetary items at historical rates. Revenue and expense items are translated at the rate of exchange in effect on the dates they occur. Exchange gains and losses arising on translation of foreign currency are included in current operations.

k) INCOME TAXES

Future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Company's provision for current income taxes and the difference between opening and ending balances on future income tax assets and liabilities.

l) CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of trade accounts receivable. A majority of the Company's trade receivables are derived from sales to retailers, manufacturers and to original equipment manufacturers and distributors. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. The Company maintains reserves for potential credit losses, and any such losses to date have been within management's expectations.

m) USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Significant areas requiring the use of estimates relate to rates of amortization of capital assets and valuation of goodwill. Actual results could differ from those estimates.

n) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist of accounts receivable, demand loan, accounts payable and accrued liabilities, term loan and other debt and accrued post retirement benefit liability. The Company determines fair value of its financial instruments based on market values or discounted cash flow analysis. The recorded amounts of financial instruments in these consolidated financial statements approximate their fair values.

o) POST RETIREMENT BENEFITS

The Company provides designated employees with defined post retirement benefits based upon their years of service. These benefits are accrued by the Company and remain unfunded unless certain events occur. The current provision for the benefit expense reflects an actuarily-determined amortization of past service costs over the average remaining service years of employment (8 years in 2001; 9 years in 2000) until the maximum entitlement is achieved, imputed interest on the unfunded balance, and, a provision for current service.

The Company provides certain employees with post retirement life insurance benefits under a plan that is unfunded. The current provision for the benefit expense reflects actuarily-determined imputed interest on the unfunded balance, net of annual employer contributions, and a provision for current service. The Company uses the "Corridor Approach" to accrue actuarial gains or losses. The liability for the benefits will be accrued over the attribution period of twenty years.

p) RECENT ACCOUNTING PRONOUNCEMENTS

i) ***Goodwill and other intangible assets*** – In 2001, the CICA issued Handbook Section 3062, "Goodwill and Other Intangible Assets". This new standard requires that goodwill and intangible assets with indefinite lives are no longer amortized, but instead are tested for impairment at least annually by comparing their fair values with their book values. The new standards do not change the accounting for intangible assets with determinable lives, so they continue to be amortized over their estimated useful lives and are tested for impairment by comparing their book values with the undiscounted cash flow expected to be received from their use.

Upon full adoption of the standards beginning January 1, 2002, the Company will discontinue amortization of all existing goodwill, evaluate existing intangible assets and make any necessary reclassifications in order to conform with the new criteria for recognition of intangible assets apart from goodwill and test for impairment in accordance with the new standards.

If goodwill continues to be reported under the new standards, this goodwill will be tested to determine if there is any indication that this goodwill is impaired. To accomplish this, the Company will identify its "reporting units" and determine the book value of each reporting unit by assigning assets and liabilities, including the existing goodwill and intangible assets, to the reporting units. The Company then has until June 30, 2002 to calculate the fair value of each reporting unit and compare it to the reporting units' book value. If the reporting units' book value exceeds its fair value, the Company will be required to perform the second step of the transitional impairment test, by calculating the "implied fair value" of the reporting units' goodwill, and comparing it to the book value of the goodwill. The Company has until no later than the end of 2002 to quantify any impairment based on determining the implied fair value of goodwill of a reporting unit until and comparing it to the book value of goodwill. Any shortfall of the implied fair value of the goodwill compared to its book value will be recognized as an effect of a change in accounting policy and will be charged to opening retained earnings for 2002 without restatement of prior periods.

Because of the judgement and extensive effort required to comply with the remaining provisions of Section 3062, the Company has not estimated the impact of these provisions on its consolidated financial statements.

ii) ***Stock-based compensation and other stock-based payments*** – In December 2001, the CICA issued Handbook Section 3870, which established standards for recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock, that call for settlement in cash or other assets or are appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Company to continue its existing policy of recording no compensation on the grant of stock options to employees. Consideration paid by employees on the exercise of stock options is recorded as share capital. The standard is effective for the Company's fiscal year beginning January 1, 2002 for awards granted on or after that date. The Company's current accounting policies are materially consistent with the new standard.

NOTE 2 - JOINT VENTURES

In 1999 the Company entered into a 50-50 joint venture agreement for the manufacture of railway fastening clips for which AirBoss Railway Products, Inc. is the exclusive vendor. The joint venture is consolidated on a proportionate basis. The joint venture commenced manufacturing operations in 2001.

Company's share of joint venture's:		2001	2000
Revenues		$ 2,333	$ –
Expenses		234	–
Net income		142	–
Assets	– current	904	334
	– long-term	1,357	1,377
Liabilities	– current	588	180
	– long-term	–	–
Advance from AirBoss of America Corp.		1,530	1,530
Cash flow from	– operations	370	–
	– investing activities	(164)	(985)
	– financing activities	–	1,058

In 2001 the Company signed a 50-50 joint venture agreement for the sale of injected rubber products. The joint venture is consolidated on a proportionate basis. As the company is in the start up stage, no material investments have been made nor liabilities incurred.

NOTE 3 - INVENTORIES

	2001	2000
Raw materials	$ 11,927	$ 12,056
Work-in-progress	2,897	3,154
Finished goods	8,525	6,887
	$ 23,349	$ 22,097

NOTE 4 - CAPITAL ASSETS

December 31, 2001	**Cost**	**Accumulated Amortization**	**Net**
Land	$ 2,500	$ –	$ 2,500
Buildings	8,674	998	7,676
Equipment	54,782	12,099	42,683
	$ 65,956	$ 13,097	$ 52,859

December 31, 2000	**Cost**	**Accumulated Amortization**	**Net**
Land	$ 2,500	$ –	$ 2,500
Buildings	8,450	684	7,766
Equipment	50,430	8,990	41,440
	$ 61,380	$ 9,674	$ 51,706

Amortization expense for the years ended December 31, 2001 and 2000 were $3,728 and $3,828, respectively.

NOTE 5 - GOODWILL

	2001	2000
Cost	$ 27,827	$ 27,827
Accumulated amortization	2,385	1,165
	$ 25,442	$ 26,162
Amortization expense	$ 720	$ 720

On April 22, 1999, the Company aquired 100% of the shares of Acton International Inc. Additional costs of $221 incurred in 2000 for the acquisition were allocated to goodwill.

NOTE 6 - OTHER ASSETS

Other assets are comprised of the following:	2001	2000
Product development	$ 1,558	$ 1,309
Patents and licences	711	693
Deferred financing	388	432
	2,657	2,434
Accumulated amortization	1,150	1,413
	$ 1,507	$ 1,021
Amortization expense	$ 561	$ 786

During 2000, the Company re-organized its tire and rubber moulding businesses. Included in re-organization expense is $500 of accelerated amortization of product development, patents and licences, associated with these businesses (Note 15).

NOTE 7 - LOAN FACILITIES

The Company has available an operating line of credit up to $27,000 (2000 - $27,000).

a) **Demand loan** – The demand loan bears interest at the Bank's prime rate plus 0.5% per annum, with respect to loans denominated in Canadian currency and at the Bank's U.S. prime rate plus 0.5% per annum, with respect to loans denominated in U.S. currency. The fee charged for bankers' acceptances is the Bank's Stamping Fee plus 1.25%.

The indebtedness to the Bank is secured by a general security agreement entered into by the Company and its subsidiaries, accounts receivable and inventories, and collateral mortgages subordinated to the term lender.

b) **Term loan** – The Company has available commercial term loan facilities of $29,500 (2000 - $16,300) negotiated during the year. Proceeds from the new term loan facilities of $30,000 net of fees of $388 were applied to reduce debt as follows:

Term debt	$ 16,855
Other debt	3,785
Bank operating line	8,972
	$ 29,612

The term loan is secured by a general security agreement entered into by the Company and its subsidiaries and collateral mortgages. The term loan bears interest of 7.64% annually, calculated monthly, and is repayable in monthly principal installments of $250 plus interest with the balance of $15,000 repayable on October 15, 2006.

Future term debt payments over each of the next five years are as follows:

2002	$ 3,000
2003	3,000
2004	3,000
2005	3,000
2006	17,500
	$ 29,500

The provisions of the demand loan and term loan agreements described above impose certain restrictive financial and other covenants which must be met on a quarterly and/or annual basis.

NOTE 8 - OTHER DEBT

	2001	2000
Promissory notes – Acton International Inc.	$ 2,955	$ 3,589
Unsecured loans	247	719
Discounted liability and promissory note	373	4,853
Discounted note	–	708
	3,575	9,869
Less current portion	1,080	3,293
	$ 2,495	$ 6,576

Other debt includes two promissory notes taken back by the vendors of Acton International Inc. The notes bear interest of 8%, are secured by a collateral mortgage of $3,589 on the assets of Acton International Inc. and rank second to the Bank and term lender. They are repayable in two equal annual payments of $634 with the balance of $1,687 payable on April 20, 2004.

The Company owes $247 (2000 - $495) under government-sponsored loan arrangements supporting research and development and nil (2000 - $224) for small business capital. The loan is unsecured, non-interest bearing and is repayable on April 1, 2002.

Other debt includes a discounted liability of $373 (2000 - $603) and a promissory note of nil (2000 - $4,250). The discounted liability bears interest of 8% per annum and is payable initially in 36 monthly installments of $26 and, subsequently, in 24 monthly installments of $13. Payments commenced May 22, 1999.

Future other debt payments over each of the next three years are as follows:		
	2002	$ 1,080
	2003	774
	2004	1,721
		$ 3,575

NOTE 9 - SHARE CAPITAL AND CONTRIBUTED SURPLUS

a) **Share capital – authorized:**

Unlimited number of common shares.

Unlimited number of Class B preference shares without par value and assumable in series subject to the filing of articles of amendment. The directors may fix, from time to time before such issue, the number of shares that is to comprise each series and the designations, rights, privileges, restrictions, and conditions attaching to each series.

Issued share capital is as follows:

	Common Shares	
	Amount (in thousands)	Number of Common Shares
Balance, December 31, 1999	$ 38,533	22,629,573
Exercise of stock options	336	167,500
Redemption and cancellation of shares	(507)	(297,650)
Balance, December 31, 2001 and 2000	$ 38,362	22,499,423

b) **Contributed surplus** – On November 20, 2000 the Company initiated a Normal Course Issuer Bid whereby it could, at its option, repurchase up to 2,116,000 shares during the ensuing twelve months. During 2000 the Company repurchased 297,650 shares for cancellation at an average price of $1.23 per share. The difference between the book value and the purchase price of $143 has been credited to contributed surplus.

c) **Stock options** – The Company has reserved 1,961,750 shares for its stock option plan. Options vest when granted. The plan provides for the following vested options, granted to directors and officers of the Company, which were outstanding at December 31, 2001 with a weighted average exercise price of $2.39.

Number of Options	Exercise Price	Expiry Date
50,000	$ 3.60	May 1, 2002
50,000	$ 3.50	July 27, 2002
10,000	$ 1.25	December 31, 2002
5,000	$ 3.00	March 31, 2003
100,000	$ 3.49	April 15, 2003
87,500	$ 2.30	August 2, 2003
475,000	$ 4.50	June 2, 2004
941,000	$ 1.12	March 14, 2006
7,500	$ 1.04	April 1, 2006
1,726,000		

		2001		2000
Options	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	875,000	$ 3.85	1,592,500	$ 3.06
Granted	958,500	1.12	92,500	2.34
Exercised	–	–	(167,500)	2.00
Expired	(107,500)	2.89	(642,500)	2.15
Outstanding and exercisable at end of year	1,726,000	$ 2.39	875,000	$ 3.85

NOTE 10 - EARNINGS PER SHARE

The following table sets forth the calculation of basic and diluted earnings per share:

	Year ended December 31	
	2001	2000
Numerator for basic and diluted earnings per share before amortization of goodwill:	$ 3,938	$ 3,466
Numerator for basic and fully diluted earnings per share:	3,218	2,746
Denominator for basic and diluted earnings per share:		
Basic Weighted average number of shares outstanding	22,499,423	22,725,843
Effect of stock options	142,253	158,190
Diluted weighted average number of shares outstanding	22,641,676	22,884,033
Basic earnings per share before amortization of goodwill	$ 0.18	$ 0.15
Diluted earnings per share before amortization of goodwill	0.17	0.15
Basic earnings per share	$ 0.14	$ 0.12
Diluted earnings per share	0.14	0.12

NOTE 11 - INCOME TAXES

The provision for income taxes differs from the amount computed by applying the Canadian statutory income tax rate to income before income taxes for the following reasons:

	2001	2000
Combined federal and provincial statutory income tax rate	41.7%	42.0%
Federal large corporations tax	6.3	3.9
Canadian rate adjustment for manufacturing and processing activities	(4.8)	(8.4)
Canadian investment tax credits	(4.8)	(0.7)
Foreign tax differential	(1.9)	1.3
Non-deductible expenses	–	(3.0)
Future income tax rate reduction	(1.7)	(1.5)
Other	(0.2)	(1.7)
Total:	34.6%	31.9%

The components of the provision for income taxes are as follows:	2001	2000
Current	$ (73)	$ 909
Future	2,157	717
	$ 2,084	$ 1,626

The income tax effects of temporary differences that give rise to significant portions of future income tax assets and liabilities are as follows:

	2001	2000
Future income tax assets:		
Non-capital income tax loss carry-forwards	$ 1,753	$ 1,109
Research and development expenses deducted for accounting puposes in excess of tax purposes	562	296
Future income tax deductions relating to long-term liabilities	229	247
	2,544	1,652
Less valuation allowance	59	5
	2,485	1,647
Future income tax liabilities:		
Capital assets and other	(11,770)	(8,676)
Manufacturing tax incentives	(109)	–
Total future income tax liabilities	(11,879)	(8,676)
Net future income tax liability	$ (9,394)	$ (7,029)

In assessing the valuation of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of the future income tax assets is dependent upon the generation of future taxable income during the period in which the temporary differences are deductible. Management considers the scheduled reversals of future income tax liabilities, the character of the income tax asset, and the tax planning strategies in making this assessment. To the extent that management believes that the realization of future income tax assets do not meet the more likely than not realization criterion, a valuation allowance is recorded against the future income tax assets.

The Company has losses of $598 available to offset future income taxes in Canada that expire beginning in 2007 and $4,094 in the U.S. with no expiry date. The Company has scientific research and development expense carry-forwards to offset future income taxes in Canada of $1,166. The Company has recognized a future tax asset to the extent that the losses and sceintific research and development costs are more likely than not to be realized.

NOTE 12 - COMMITMENTS

The Company is committed under non-cancellable operating lease agreements to minimum rentals for premises as follows:

2002	$	96
2003		22
thereafter		Nil

NOTE 13 - POST RETIREMENT BENEFITS

a) **Retirement Compensation Plan** – The Company provides a defined benefit retirement compensation plan for designated employees. The plan provides for retirement compensation payments based upon the employees' years of service. The plan provides that it be unfunded until the occurrence of certain events including termination and change of control of the Company. Benefit obligations were actuarially determined in November 1999.

		2001		2000
Post retirement benefit obligation at beginning of year	$	664	$	568
Service cost		63		59
Interest cost		43		37
Post retirement benefit obligation at end of year	$	770	$	664
The Company's net benefit plan expense is as follows:				
Service cost	$	63	$	59
Interest cost		43		37
Amortization of past service benefit		55		55
	$	161	$	151
Accrued post retirement benefit liability	$	337	$	176
Unamortized post retirement benefit obligation at end of year	$	433	$	488
Weighted average assumptions as of December 31				
Discount rate		6.5%		6.5%

b) Retirement Term Life Insurance Plan – Certain employees are eligible for Company-paid post retirement term life insurance coverage determined by their years of service and age at time of retirement. The plan is unfunded. Benefit obligations were actuarily determined in January 2001.

	2001	2000
Post retirement benefit obligation at beginning of year	$ 416	$ 382
Service cost	6	6
Interest cost	28	28
Employer contribution	(24)	(24)
Experience loss	–	24
Post retirement benefit obligation at end of year	$ 426	$ 416
The Company's net benefit plan expense is as follows:		
Service cost	$ 6	$ 6
Interest cost	28	28
Amortization of transitional liability	25	24
	$ 59	$ 58
Accrued post retirement benefit liability	$ 71	$ 34
Unamortized benefit obligation at end of year	$ 355	$ 382
Weighted average assumptions as of December 31		
Discount rate	6.75%	7.25%

NOTE 14 - SEGMENTED INFORMATION

The Company is comprised of three significant business segments, which produce rubber compounds and engineered products. The engineered products group includes the railway division and the tire division, which design and distribute railway fastening products and tires, respectively, and, the Acton division and AirBoss Moulded Products division, which produce rubber protective products, including footwear and gloves, and further processed rubber compounds. The Company operates within North America and has production facilities in Canada and the United States.

One customer represented 17% and 19% of total sales in 2001 and 2000, respectively. Five rubber compounding customers represented 42% and 45% of sales in 2001 and 2000, respectively.

	SALES EXCLUDING INTER-COMPANY				Inter-	
2001	Canada	U.S.A.	Other	Total	Company	Contribution
Rubber compounding operations	$ 38,597	$ 42,545	$ 341	$ 81,483	$ 7,192	$ 7,348
Engineered products						
– Railway and distribution	200	30,034	458	30,692	392	2,374
– Acton and other	27,006	26,779	3,241	57,026	4,331	469
Subtotal	$ 65,803	$ 99,358	$ 4,040	$ 169,201	$ 11,915	10,191
Unallocated administrative costs						1,564
Income before interest and income taxes						8,627
Interest						3,325
Provision for income taxes						2,084
Net income						$ 3,218

	Rubber	ENGINEERED PRODUCTS			
	Compounding Operations	Railway & Distribution	Acton & Other	Unallocated	Total
Assets employed – Canada	$ 56,016	$ –	$ 63,599	$ 2,672	$ 122,287
– U.S.A.	–	8,616	–	–	8,616
– Total	$ 56,016	$ 8,616	$ 63,599	$ 2,672	$ 130,903
Purchase of capital assets	$ 1,802	$ 229	$ 2,845	$ 5	$ 4,881
Amortization – Goodwill					$ 720
– Capital and other assets					$ 4,289

2000	SALES EXCLUDING INTER-COMPANY Canada	U.S.A.	Other	Total	Inter-Company	Contribution
Rubber mixing operations	$ 42,490	$ 32,257	$ 480	$ 75,227	$ 5,190	$ 11,747
Engineered products						
– Railway and distribution	1,014	14,046	506	15,566	–	(293)
– Acton and other	23,862	20,585	2,798	47,245	5,890	518
Subtotal	$ 67,366	$ 66,888	$ 3,784	$ 138,038	$ 11,080	$ 11,972
Unallocated administrative costs						2,281
Re-organization costs (Note 15)						1,566
Income before interest and income taxes						8,125
Interest						3,753
Provision for income taxes						1,626
Net income						$ 2,746

	Rubber Compounding Operations	ENGINEERED PRODUCTS Railway & Distribution	Acton & Other	Unallocated	Total
Assets employed – Canada	$ 53,616	$ –	$ 60,656	$ 424	$ 114,696
– U.S.A.	–	5,762	3,952	–	9,714
– Total	$ 53,616	$ 5,762	$ 64,608	$ 424	$ 124,410
Purchase of capital assets	$ 2,404	$ 112	$ 3,690	$ 7	$ 6,213
Amortization – Goodwill					$ 720
– Capital and other assets					$ 4,614

NOTE 15 - RE-ORGANIZATION COSTS

During 2000 the Company re-organized its tire division and transferred its rubber moulding operations from its facility in Michigan to Kitchener. Under the re-organization, the Michigan location was converted to a sales, service and tire assembly and distribution facility. Costs incurred in the re-organization include severances related to sales and production personnel, asset relocation costs, write-down of product development and patents and licences and start up costs in Kitchener.

NOTE 16 - CONTINGENCIES

i) **Legal**

Pursuant to a summary judgment issued by the United States District Court for the Western District of Missouri, damages of approximately $3.2 million U.S. have been awarded against AirBoss for patent infringement. In addition, an injunction has been granted preventing AirBoss from manufacturing a three-part railway assembly. This decision is a reversal of an earlier decision dismissing the matter in favour of AirBoss. Prior to producing this product, several independent legal opinions were obtained that our product was not infringing on any patents.

AirBoss has appealed what it, and its counsel, feel is an incorrect judgment. Based upon legal opinions, the Company has not recorded the award in its results. A bond was posted for the amount of the damages pending the outcome of the appeal. This product represents approximately 6.6% of sales. There is no assurance, however, that AirBoss will ultimately be successful in its appeal or that the appeal will be decided on a timely basis.

ii) **Environmental**

a) The Company may be liable for the acquisition of certain assets at a cost of $500 U.S. The acquisition of these assets is contingent upon the vendor securing regulatory recognition of successful environmental remediation of these assets. To date this has not been completed. Management believes that the fair market value of the assets, once remediated, equal or exceed the acquisition price and that the subsequent purchase will not have a material adverse effect on the consolidated financial position of the Company.

b) Under the terms of the term financing facility [Note 7(b)] the Company has posted a letter of credit of $500, in favour of the lender, as security for the completion of certain remediation and environmental certification projects, which the Company believes will be substantially completed before the end of 2002 without any material impact to the operations or financial position of the Company.

NOTE 17 - COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's financial statement presentation.

FIVE YEAR FINANCIAL HISTORY

(millions except shares and per share)	2001	2000	1999	1998	1997
Value of Goods Produced and Sold	$ 184.1	$ 159.4	$ 147.6	$ 90.7	$ 56.5
Net Sales	169.2	138.0	120.1	79.4	56.2
Gross Margin	29.9	28.4	28.0	13.5	7.8
Earnings Before Interest, Taxes & Amortization (EBITDA)	13.6	13.5	17.2	9.3	3.8
Net Income Before Amortization of Goodwill	3.9	3.5	8.0	4.6	3.4
Net Income	3.2	2.7	7.4	4.6	3.3
Cash Flow	10.8	9.0	14.4	7.7	3.0
Shareholders' Equity	$ 59.7	$ 56.5	$ 53.8	$ 34.7	$ 22.2
Number of Shares Outstanding*	22,499,423	22,499,423	22,629,573	19,003,945	16,594,431
Per Common Share					
EBITDA Per Share (weighted)	0.61	0.59	0.80	0.52	0.28
Net Income Before Amortization of Goodwill					
– Basic	0.18	0.15	0.37	0.26	0.25
– Diluted	0.17	0.15	0.37	0.25	0.25
Net Income					
– Basic	0.14	0.12	0.35	0.26	0.24
– Diluted	0.14	0.12	0.34	0.24	0.24
Cash Flow (weighted)	0.48	0.40	0.67	0.46	0.22
Return on Equity	6%	5%	17%	19%	16%

*1997 restated to reflect one-for-four consolidation in 1998.

CORPORATE INFORMATION

BOARD OF DIRECTORS AND OFFICERS

David A. Campbell (2)
President, Acorn Equipment Rental Inc.
Alliston, Ontario

Sandra S. Cowan
Partner and General Counsel, EdgeStone Capital Partners
Toronto, Ontario

Robert L. Hagerman (1)
President, AirBoss of America Corp.
Aurora, Ontario

Robert L. McLeish (1) (2)
Director, Newport Partners
Toronto, Ontario

Brian A. Robbins (1)
President and Chief Executive Officer, Exco Technologies Limited
Aurora, Ontario

P. Grenville Schoch (2)
Chairman, AirBoss of America Corp.
Aurora, Ontario

(1) Member of the Audit Committee.
(2) Member of the Compensation Committee.

SOLICITORS

Goodman and Carr LLP
Toronto, Ontario

AUDITORS

KPMG LLP
Toronto, Ontario

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services, Inc.
Toronto, Ontario

Stock Symbol Toronto Stock Exchange: BOS

Web Site Address: www.airbossofamerica.com

Email Address: info@airbossofamerica.com

Our Annual Meeting is Tuesday, May 14, 2002, 4:30 p.m. at the Toronto Board of Trade.

AIRBOSS OF AMERICA CORP.

OFFICES

Canada

TORONTO — **AirBoss of America Corp.**

Corporate Office:	130 Adelaide Street West, Suite 3210, Toronto, Ontario, Canada M5H 3P5
Telephone:	416-368-BOSS (2677)
Facsimile:	416-368-4448
Chairman:	P.G. (Gren) Schoch
President and Chief Executive Officer:	R.L. (Bob) Hagerman
Vice-President Finance:	Axel G. Breuer
Investor Relations:	S.M. (Suzi) Leonard

KITCHENER — **AirBoss Rubber Compounding**

Address:	101 Glasgow Street, Kitchener, Ontario, Canada N2G 4X8
Telephone:	519-576-5565
Facsimile:	519-576-1315
President:	Ben Stevens
Vice-President Sales:	Berkley Howard

SUBSIDIARIES

MONTREAL — **AirBoss-Acton**

Address:	881 Landry, Acton Vale, Québec, Canada J0H 1A0
Telephone:	450-546-2776
Facsimile:	450-546-3735
President:	François Soucy
Sales Manager - Commercial Footwear:	Pierre Bernier
Military Products Manager:	Earl Laurie
Sales Manager - Industrial Products:	Marcel Courtemanche

United States

MICHIGAN — **AirBoss Polymer Products, Corporation**

Address:	1425 Kalamazoo Street, South Haven, Michigan, U.S.A. 49090
Telephone:	616-637-2181 or 616-637-6356
Facsimile:	616-637-8955
President:	Gerald M. (Jerry) Van Vlack
Sales/Customer Service:	John Hagerman

MISSOURI — **AirBoss Railway Products, Inc.**

Address:	9237 Ward Parkway, Suite 206, Kansas City, Missouri, U.S.A. 64114
Telephone:	816-822-7599
Facsimile:	816-822-0150
President:	Robert (Bob) Magnuson
Secretary:	José Mediavilla

www.airbossofamerica.com